Financial Statements of

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Year ended March 31, 2012

VIRTUS GROUP

Chartered Accountants & Business Advisors LLP

INDEPENDENT AUDITORS' REPORT

To: Members of the Legislative Assembly
Province of Saskatchewan

We have audited the accompanying financial statements of **Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation,** which comprise the statement of financial position as at March 31, 2012, the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation** as at March 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Virtus Group LLP

May 24, 2012
Regina, Saskatchewan, Canada

Chartered Accountants

200-157 2nd Avenue North
Saskatoon, Saskatchewan S7K 2A9
Telephone 306-653-6100 Fax 306-653-4245
Toll Free 1-888-285-7677
Email virtus.saskatoon@virtusgroup.ca
Firm Website: www.virtusgroup.ca

Central Park Place, 200-2208 Scarth Street
Regina, Saskatchewan S4P 2J6
Telephone 306-522-6500 Fax 306-522-6222
Toll Free 1-888-258-7677
Email virtus.regina@virtusgroup.ca

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Financial Position

March 31, 2012 with comparative figures for 2011

	2012	2011
Financial assets:		
Cash	$ 8,028,871	$ 7,841,173
Accounts receivable	6,466	14,480
Due from Western Canada Lottery - Saskatchewan Division Inc.	11,126,752	11,008,162
Investments (note 3)	79,252,875	73,159,756
	98,414,964	92,023,571
Liabilities:		
Accounts payable	64,246	83,646
Due to Province of Saskatchewan - General Revenue Fund	44,409	1,352,517
Grants payable (note 4)	69,340,064	64,623,628
	69,448,719	66,059,791
Net financial assets	28,966,245	25,963,780
Restricted trust fund balances (Schedule 1)	$ 28,966,245	$ 25,963,780

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Operations

Year ended March 31, 2012 with comparative figures for 2011

	Budget 2012 (note 8)	2012	2011
Transfer of net lottery profits from Western Canada Lottery - Saskatchewan Division Inc. (Schedule 2)	$ 53,886,107	$ 60,644,168	$ 68,939,240
Less directed payments: (note 5)			
Federal Government payment	2,014,600	1,995,099	1,942,664
Former distributors	1,446,560	1,430,480	1,410,880
Payment to the Province of Saskatchewan - General Revenue Fund	6,915,000	7,143,609	7,690,016
Saskatchewan Association of Agricultural Societies and Exhibition Associations	310,000	310,000	310,000
	10,686,160	10,879,188	11,353,560
Lottery profits after directed payments	43,199,947	49,764,980	57,585,680
Investment income	1,655,000	1,694,908	2,244,635
Less administration expenses (Schedule 3)	557,070	545,756	496,642
Funds available to provide grants	44,297,877	50,914,132	59,333,673
Less grants (Schedule 1)	50,395,000	47,911,667	51,091,398
Increase/(decrease) in restricted trust fund balances	(6,097,123)	3,002,465	8,242,275
Restricted trust fund balances, beginning of year	25,963,780	25,963,780	17,721,505
Restricted trust fund balances, end of year	$ 19,866,657	$ 28,966,245	$ 25,963,780

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Cash Flows

Year ended March 31, 2012 with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Increase in restricted trust fund balances	$ 3,002,465	$ 8,242,275
Realized (gain) on sale of investments	(80,596)	(63,250)
Items not affected by cash:		
Unrealized loss/(gain) on investments	351,648	(426,640)
Net change in non-cash working capital items:		
Accounts receivable	8,014	11,637
Due from Western Canada Lottery - Saskatchewan Division Inc.	(118,590)	(2,285,628)
Accounts payable	(19,400)	10,047
Due to Province of Saskatchewan - General Revenue Fund	(1,308,108)	1,098,149
Grants payable	4,716,436	11,747,769
	6,551,869	18,334,359
Investing activities:		
Purchase of investments	(18,269,868)	(49,136,721)
Proceeds from disposal of investments	11,905,697	26,702,248
	(6,364,171)	(22,434,473)
Increase/(decrease) in cash during the year	187,698	(4,100,114)
Cash, beginning of year	7,841,173	11,941,287
Cash, end of year	$ 8,028,871	$ 7,841,173

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Notes to Financial Statements

March 31, 2012

1. **Nature of operations:**

The Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation (the Trust) was established in 1974 and is continued pursuant to the *Interprovincial Lotteries Act 1984* and an agreement between the Minister of Tourism, Parks, Culture and Sport for the Province of Saskatchewan and Sask Sport Inc. Under the terms of the agreement, Sask Sport Inc. has been designated as the provincial marketing organization to sell Western Canada Lottery Corporation lottery tickets in Saskatchewan. Sask Sport Inc. has established the Western Canada Lottery - Saskatchewan Division Inc. to market, and Sask Sport Distributors Inc. to distribute these tickets on its behalf.

The agreement requires that the net lottery profits (detailed in Schedule 2) are transferred to the Trust and allocated to sport, culture and recreation. The profits (allocated 50% to sport, 35% to culture and 15% to recreation) are restricted for granting to eligible organizations designated by the Minister of Tourism, Parks, Culture and Sport for the Province of Saskatchewan. Each of these three sections contributes funds to the Saskatchewan Lotteries Community Grant Program in the same percentage as above; and to the Saskatchewan Lotteries Community Development Fund as follows: 40% by sport, 30% by culture and 30% by recreation. The sport section alone contributes funds to the Canada Games Program.

The lottery agreement also requires Sask Sport Inc., as designated provincial marketing organization for lottery tickets, to pay out of the Trust directed payments as described in note 5.

2. **Significant accounting policies:**

The Trust uses generally accepted accounting principles as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB). PSAB classifies the Trust as an other government organization.

Basis of accounting and use of estimates:

The preparation of financial statements in accordance with the PSAB requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Differences are reflected in current earnings when identified.

Investments:

Pooled investment funds are recorded at market value. All other investments are recorded at amortized cost.

Notes to Financial Statements
March 31, 2012

2. Significant accounting policies (continued):

Grant expense and directed payments:

Grants to eligible organizations are recorded when approved by the Trust Committee or the Sask Sport Inc. Board of Directors. Directed payments are recognized by the Trust as required by the lottery agreement.

Revenue recognition:

Lottery profits are recognized by the Trust in the period they are earned by the Western Canada Lottery – Saskatchewan Division Inc. Investment income is recognized in the period earned. Premiums and discounts on bond investments are amortized to income using the effective interest method.

3. Investments:

Investments at March 31 consist of:

	2012		2011	
	Carrying Amount	Market Value	Carrying Amount	Market Value
Government Bond	$ 3,750,686	$ 3,838,850	$ 3,643,750	$ 3,658,475
Guaranteed Investment Certificates	67,511,327	67,510,706	65,844,478	65,845,763
Bank Shares	2,990,385	3,355,840	-	-
CC&L Canadian Value & Equity Funds	5,000,477	5,000,477	3,671,528	3,671,528
	$79,252,875	$79,705,873	$73,159,756	$73,175,766

Government Bond matures June 1, 2014 (2011 – June 1, 2014) and has an effective interest rate of 2.9% (2011 - 2.9%). Guaranteed investment certificates mature between April 29, 2012 and March 14, 2016 (2011 – June 30, 2011 and July 20, 2014) and have effective interest rates ranging from 2.11% to 4.00% (2011 – 1.25% to 4.45%). Connor Clark and Lunn Canadian Value & Equity Funds are pooled funds consisting of managed equities with no specified rate of return or maturity. The bank shares have no specified rate of return or maturity. Market values are the values quoted by the applicable market on March 31, 2012.

4. Grants payable:

	2012	2011
Community Grant Programs	$ 13,729,808	$ 11,972,198
Culture	17,376,972	16,297,377
Recreation	6,599,136	6,474,856
Sport	31,634,148	29,879,197
	$ 69,340,064	$ 64,623,628

Notes to Financial Statements

March 31, 2012

5. **Directed payments:**

Under the terms of An Agreement for the Distribution of Funds, which expires on March 31, 2014, with the Minister of Tourism, Parks, Culture and Sport for the Province of Saskatchewan, the Trust is required to make the following payments to:

- the Federal Government which, under an agreement dated September 23, 1979 with the Interprovincial Lottery Corporation, withdrew from the lottery field in exchange for $24,000,000 annually, in 1979 dollars. Saskatchewan's share of this payment, for the year ended March 31, 2012, was $1,995,099 (2011 - $1,942,664).
- Sask Sport Distributors Inc. to cover the distributor payments made to those volunteer non-profit organizations that previously acted as ticket distributors. This amounted to $1,430,480 (2011 - $1,410,880) during the current year. Of this amount, Sask Sport Inc., as a former ticket distributor, received $358,560 (2011 - $358,560) during the current year.
- the General Revenue Fund of the Province of Saskatchewan in the amount of 3.75% of net lottery ticket sales (2011 - 3.75% of net lottery ticket sales). During the current year $7,143,608 (2011 - $7,690,016) was paid.
- the Saskatchewan Association of Agricultural Societies and Exhibition Associations in the amount of $310,000 (2011 - $310,000) for the current year.

6. **Related party transactions:**

Sask Sport Inc., as a sport federation, received grants from the Trust of $2,759,791 (2011 - $2,130,585) during the current year, to provide programs and services to its member sport organizations. Sask Sport Inc. also received $9,764 (2011 - $10,065) as a fee for providing office equipment for use during the current year. Administrative expenses include direct expenses of the Fund as well as expenses allocated from Sask Sport Inc. based on Sask Sport Inc. resources used in the management and administration of the Fund.

The Administration Centers for Sport, Culture and Recreation (1989) Inc., a wholly owned subsidiary of Sask Sport Inc., provides office space and administrative services for non-profit sport, culture and recreation associations and received a grant from the Trust of $568,000 (2011 - $551,050) during the current year. In addition, the Trust paid to the Administration Centers for Sport, Culture and Recreation (1989) Inc. $46,964 (2011 - $47,582) for office space and services.

Notes to Financial Statements
March 31, 2012

6. Related party transactions (continued):

These financial statements include transactions with related parties. The Trust is related to all Saskatchewan Crown agencies such as ministries, corporations, boards and commissions under the common control of the Government of Saskatchewan. Also, the Trust is related to non-Crown enterprises that the Government jointly controls or significantly influences.

These transactions are in the normal course of operations and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. Other related party transactions and amounts due to/from are disclosed separately in these financial statements.

7. Financial instruments and risks:

Fair value:

The recorded value of receivables classified as loans and receivables, and payables classified as other liabilities, approximates their fair value.

Credit and interest rate risk:

The Trust is not subject to significant credit risk. The Trust may be subject to significant interest rate risk relative to certain investments described in Note 3. To mitigate the effects of interest rate changes the Trust applies investing policies that address portfolio mix, maturities, and liquidity.

8. Budget:

The original budget was approved by the Board of Sask Sport Inc. on February 10, 2011. Revisions to the budget were approved by the Board November 30, 2011 and March 29, 2012.

9. Comparative figures:

Certain comparative figures have been reclassified to conform with the presentation in the current year.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Schedule 1 - Restricted Trust Fund Balances

Year ended March 31, 2012 with comparative figures for 2011

	Restricted trust fund balances, beginning of year	Allocation of funds available to provide grants	Grants approved - net of returns	increase in funds	Restricted trust fund balances, end of year
Community Development	$ 156,088	$ 4,644,000	$ (4,643,425)	$ 575	$ 156,663
Community Grant	6,658,780	4,925,000	(4,570,683)	354,317	7,013,097
Culture	5,840,973	14,702,996	(13,188,124)	1,514,872	7,355,845
Recreation	2,700,573	5,505,170	(5,091,808)	413,362	3,113,935
Sport	10,607,366	21,136,966	(20,417,627)	719,339	11,326,705
Total 2012	$ 25,963,780	$ 50,914,132	$ (47,911,667)	$ 3,002,465	$ 28,966,245
Total 2011	$ 17,721,505	$ 59,333,673	$ (51,091,398)	$ 8,242,275	$ 25,963,780

Schedule 2 - Net Lottery Profits

Year ended March 31, 2012 with comparative figures for 2011

	Budget 2012 (note 8)	2012	2011
Lottery ticket sales	$ 184,400,000	$ 190,496,230	$ 205,067,107
Revenue and expense items paid by the Western Canada Lottery Corporation:			
Prizes	(97,185,000)	(98,943,711)	(106,560,875)
Administration and ticket printing	(17,738,300)	(15,717,345)	(13,913,201)
Retailer commissions	(10,808,000)	(10,795,421)	(11,593,594)
Federal and provincial taxes	(1,430,600)	(1,398,612)	(1,317,835)
Investment income	158,400	257,465	214,136
Lottery profits transferred from the Western Canada Lottery Corporation	57,396,500	63,898,606	71,895,738
Provincial interest and other income	222,500	222,756	214,059
Provincial distribution expenses (note 1)	(2,293,988)	(2,166,327)	(1,999,365)
Provincial marketing expenses (note 1)	(1,438,905)	(1,310,867)	(1,171,192)
Net lottery profits	$ 53,886,107	$ 60,644,168	$ 68,939,240

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Schedule 3 - Administration Expenses

Year ended March 31, 2012 with comparative figures for 2011

	Budget 2012 (note 8)	2012	2011
Salaries and benefits	$ 415,960	$ 417,147	$ 374,430
Rent	32,600	32,359	31,203
Professional fees	26,400	24,625	19,781
Office supplies	13,200	14,958	12,176
Committee meetings	16,510	12,276	17,045
Equipment expense	10,200	9,764	10,065
Printing	10,000	9,432	5,420
Telephone	6,850	6,158	6,216
Insurance	5,220	5,055	5,303
Postage	5,500	4,490	4,911
Travel and training	8,840	4,329	5,089
Goods and services tax	3,290	3,281	3,274
Repairs and maintenance	2,500	1,882	1,729
Total administration expenses	$ 557,070	$ 545,756	$ 496,642

See accompanying notes to financial statements.